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FOR AF/SPG, EB/IFD/OMA, AND INR

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TAGS: [EFIN](#) [EPET](#) [PGOV](#) [PREL](#) [SU](#)
SUBJECT: BUDGET SHORTFALL IN SUDAN

Classified By: P/E Chief E. Whitaker, Reason: Section 1.4 (b) and (d)

11. (C) Summary: Failure to achieve planned production levels in petroleum output has created a budget shortfall for the Khartoum government. The government is responding to the financial crunch by borrowing, tapping the Oil Revenue Stabilization Account, privatizing government companies, deferring payment on construction projects, and selling oil forward. Projections are that oil production will increase by 200,000 barrels per day by the end of the year, but this is open to question. End Summary.

12. (C) Professor Yagoub Ali Jangei (protect) of the University of Khartoum School of Management Studies, met with Pol/Econ Officer and Econ/Commercial Specialist on August 9. Dr. Jangei is a advisor to the government budget committee. He provided an overview of the economy, noting that exports have increased from about \$700 million in 1999 to \$2.4 billion in 2005. Foreign direct investment has surged, with \$1.7 billion in 2005. Foreign exchange reserves are now about \$4 billion. In this rapidly growing economy, the government budget has also mushroomed, going from about \$1 billion in 2000 to \$8.3 billion in 2006. As the budget increased, the government also enjoyed something of a peace dividend with the signing of the CPA, which reduced pressures to grow military spending. Despite the growth in revenue, however, the government now finds itself facing a budget shortfall.

Oil Revenues Fall Short of Budget

13. (U) Jangei outlined the budget shortfall, noting that revenues from oil, by far the largest source of income, have not met projections despite high prices. The government's budget for 2006 was based on oil production at 500,000 barrels per day. In fact, production has averaged closer to 300,000 bpd. Production of 200,000 bpd from new fields scheduled to come on stream in late 2005 or early 2006 has yet to commence. The increase in production is now expected to come on line in late 2006.

14. (C) The government budget is based on a benchmark price of \$45 per barrel. Any amount realized above \$45 is deposited in the Oil Revenue Stabilization Account (ORSA), and is not part of the budget. The 2006 budget projected revenue on the assumption of oil production at 500,000 bpd at \$45 per barrel, so the recent high oil prices did not translate directly into additional money for the budget. The shortfall of 200,000 bpd results in a revenue shortfall of about \$9 million per day.

15. (C) The government has initiated several responses to the budget crunch. First, they drew down \$100 million from the ORSA, \$50 million in the first quarter and \$50 million in the second quarter of 2006. Jangei said there are also plans to

sell shares in government-owned businesses, including Sudatel (telecommunications). In addition, the government is borrowing, both short term from banks and by issuing government bonds. Jangei said that the government will be deferring payment on construction projects to conserve funds as well. And finally, he said that the government is planning to sell oil forward, taking payment now to deliver oil in January when the additional production of 200,000 bpd is predicted to come on stream.

Other Economic Issues

16. (C) Turning to other economic issues, Jangei noted that the government is planning a reduction in customs duties as a step toward joining the WTO. Observing the concentration of investment and growth in Khartoum, Jangei said that the government is trying to pursue a policy of decentralization and has increased transfers to state governments from Sudanese Dinar 265 billion last year to SD 477 billion this year. He stated that while human development indicators have improved slightly in recent years, he finds it perplexing that real development is not occurring as rapidly as it should. He attributed this in part to corruption, but noted that it is difficult to quantify corruption. Jangei said that he would prefer to see U.S. investment in Sudan, complaining that Chinese investment tends to bring in second-rate technology and encourage corruption. Finally, Jangei noted that the government wants to obtain HIPC status in order to restructure and seek forgiveness from a portion of its sovereign debt, but the Ministr of Finance and National Eocnomy is pessimistic that this can be accomplished soon.

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